

**PUBLIC EMPLOYEES' RETIREMENT FUND  
INDIANA**

**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND  
RESTATEMENT OF INVESTMENT POLICY**

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## **DEFINITIONS**

Definitions of the following terms will be found on the pages of the Policy shown below.

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## **INTRODUCTION**

### **Description of PERF**

The Indiana Public Employees' Retirement Fund ("PERF") was established in 1945, to provide retirement, disability, death, and termination benefits to present and former members and their beneficiaries who meet the statutory requirements for such benefits. Members include employees of the State and employees of other governmental units who have adopted resolutions joining PERF (including cities, towns, counties, and other governmental units). Pursuant to Indiana law and the Internal Revenue Code, PERF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. PERF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, PERF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. PERF is also governed by Indiana statutes and administrative rules. Among the governing Indiana statutes is the requirement that PERF be funded and maintained on an actuarially sound basis. See IC 5-10.2 and IC 5-10.3.

### **Description of Other Funds Subject to Board Control**

The Board of Trustees of PERF (the "Board") is also charged with the administration and trusteeship of the following plans:

1. The 1977 Police Officers' and Firefighters' Pension and Disability Fund. See IC 36-8-8. This Fund provides retirement, death and disability benefits (as established by law) for municipal firefighters and police officers hired on and after May 1, 1977, and their beneficiaries. It is funded through member contributions and an actuarially sound state-wide employer contribution rate.
2. The Judges' Retirement System, which includes the Judges' 1977 Benefit System and the Judges' 1985 Benefit System. See IC 33-13-8, 33-13-9.1, and 33-13-10.1. This System provides retirement, death and disability benefits for all eligible judges. It is not actuarially funded and operates on a pay-as-you-go basis. Judges contribute 6% of their salary to the System.
3. The Legislators' Retirement System, which includes the Legislators' Defined Benefit Plan and the Legislators' Defined Contribution Plan. See IC 2-3.5, IC 23.5-4, and IC 2-3.5-5. The Legislators' Defined Benefit Plan provides a unit benefit for years of service in the General Assembly prior to May 1989. That plan covers a "closed" group of members and a "closed" liability, in that no individuals elected to the General Assembly after April 1989 earn any benefit under this plan, and no years of service after April 1989 count for benefit accrual for anyone who is participating in that plan. The Legislators' Defined Contribution plan is a money purchase plan, with a fixed member contribution of 5% and a fixed state contribution of 20% each year. Those contributions go into a separate account for each member, which then provides an account balance payable under various circumstances (termination, death, disability or retirement).

4. The Excise Police and Conservation Enforcement Officers' Retirement Plan. See IC 5-10-5.5. The plan provides retirement, death and disability benefits for all eligible excise police and conservation officers. It is funded on an actuarially sound basis (with a 40 year amortization of the unfunded accrued liabilities). The members pay 3% of the first \$8,500 of their salary, and the state funds the balance.
5. The Prosecuting Attorneys Retirement Fund. See IC 33-14-9. This fund provides retirement, death and disability benefits for all prosecuting attorneys, chief deputy prosecuting attorneys, state paid deputy prosecuting attorneys and certain positions in the prosecuting attorneys council. It is funded on an actuarially sound basis. The members pay 6% of their salary and the state pays the remaining amounts, as actuarially determined.

In addition, the Board is charged with administering the Pension Relief Fund, a separate fund created to provide benefits for eligible police officers and firefighters and their beneficiaries under the 1925 Police Pension Fund (see IC 36-8-6), the 1937 Firefighters Pension Fund (see IC 36-8-7), and the 1953 Police Pension Fund (see IC 36-8-7.5). These funds provide retirement, death and disability benefits for eligible individuals hired before May 1, 1977, as established by state law and local ordinances and decisions. The Pension Relief Fund is funded from proceeds from the state lottery, certain alcohol and tobacco taxes, and additional appropriations. There is a significant funding deficiency remaining at the city and town level under the three funds (the 1925 Police Pension Fund, the 1937 Firefighters Pension Fund and the 1953 Police Pension Fund) even though the covered population is "closed" as of May 1, 1977. The Pension Relief Fund relieves some of that deficiency by releasing dollars to cities and towns to cover benefits, through two release formulas.

### **PERF Annuity Savings Account**

The Annuity Savings Accounts are bookkeeping accounts established for each member of PERF. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has limited investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "passbook savings"-like or "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit.

### **Description of Primary Statutory Investment Provisions**

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. In doing so, the General Assembly noted the following:

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investments made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.3-5-3.

### **Other Restrictions on Investments**

Other pertinent investment requirements in the Indiana statute include the following:

- A. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. IC 5-10.3-5-4(a). All Custodians must be domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana. IC 5-10.3-5-5.
- B. The Treasurer of the State must receive all Fund deposits (e.g., income, interest, receipts, etc.). IC 5-10.3-5-4(a).
- C. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9).

A legal opinion dated May 19, 1997 from Fund counsel analyzes the Board's authority to make investments under the Indiana Constitution and concludes that there are no constraints under Section 12 of Article XI of the Indiana Constitution on the Board's authority to invest.

### **Background of Investment Policy**

The Board has maintained an investment policy for many years. That policy has been amended and restated from time to time as the Board deemed appropriate. The Board adopted a set of guiding principles on November 15, 1996, as well as Investment Policy Goals and Guidelines. The Board determined it was appropriate to completely restate its policy to incorporate appropriate principles, and to reflect the extensive work done by the Board following passage of Senate Enrolled Act 69 (the prudent investor standard) and Question 2 (the equity

referendum on the November 1996 Indiana ballot to allow equity investments). That restatement was dated September 12, 1997, and the Board has subsequently amended that restatement. The Board wishes to restate its policy to reflect those amendments, changes in applicable law, as well as other amendments it believes appropriate.

The Board intends this Policy to augment the governing laws, and supersede all prior statements of policy, principles and guidelines. This Policy is binding on all persons with authority over Fund assets, including Investment Managers, Custodians, Consultants, Staff, and the Board, as well as any other person who could have a relationship with the Fund.

### **Scope of Investment Policy**

This Policy covers all assets under the Board's control except to the extent the following are specifically addressed in an Addendum:

- The Annuity Savings Accounts in PERF
- The Pension Relief Fund
- Cash Collateral Reinvestments
- Alternative Investment Procedures
- Alternative Investment Information Disclosure Policy

References in the balance of this Policy to "Fund" will include all assets under the Board of Trustees' control except to the extent appropriate for the assets listed in the preceding paragraph.

## **SECTION 1. PURPOSE OF POLICY**

The purpose of the Investment Policy is to:

Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets.

Establish criteria against which the Investment Manager(s) are to be measured.

Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, and all other interested parties.

Serve as a review document to guide the ongoing oversight of the investment of the Fund.

Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.



The Board does intend this Policy to be a dynamic document, and, as such, expects to review it periodically. The Board anticipates that changes will be made from time to time to reflect experience, investment product changes, benefit and structural changes, performance and economic conditions.

## **SECTION 2. STATEMENT OF GUIDING PRINCIPLES**

The Board has adopted a set of guiding principles for oversight and management of Fund investments. They are as follows:

Investment of Fund assets will be delegated to Investment Managers pursuant to Section 14.

The Board will employ Investment Managers with understandable, clearly defined investment strategies pursuant to Section 8.

The Board will not time the markets in making investment related decisions, consistent with the fact that the Fund is a long term investor.

The Board will manage the investment of the assets in a cost effective manner.

The Board prefers to employ Investment Managers that maintain fully invested positions rather than using cash equivalent or short term investments as a strategy alternative.

The Board will maintain a prudent investor profile, consistent with its fiduciary responsibility to invest the assets solely in the interests of its beneficiaries.

Initial equity investments will be accomplished by a measured movement toward allocation targets over a three-year period.

The priority of all investments will be consistent with optimizing diversification benefits.

The Boards intends to incorporate risk management concepts focused on moderating or controlling, to the extent reasonable and practical, risks normally associated with investment.

The Board realizes that the plans under its trusteeship may have different funding positions and needs, different population demographics, and different time horizons, which may create different investment needs or requirements.

## **SECTION 3. RESPONSIBLE PARTIES AND THEIR DUTIES**

### **Board of Trustees**

The Board is the body of persons whose role is to oversee all aspects of the operation of the Fund. The Board is appointed by the Governor for a four year term, pursuant to IC 5-10.3-

31. At least one Board member must be a Fund member with at least ten years of service, and not more than three Board members may be members of the same political party. The Board members are fiduciaries of the Fund. Their responsibilities with respect to the assets of the Fund include completing each of the duties below as a prudent investor:

Set the policies, objectives, and guidelines for the investment of the assets of the Fund.

Study issues affecting the investment of the Fund so as to make educated and prudent decisions concerning this Policy.

Select qualified professionals to assist in the implementation of this Policy.

Evaluate the Fund's performance and compliance with this Policy.

Review compliance with applicable state and federal laws.

Evaluate performance of investment professionals and staff.

### **Staff of Fund**

The Staff are those persons employed by the Fund. The Board has the authority to set compensation of the Staff. Staff duties are to administer the Fund in line with the policies and decisions of the Board and the provisions of governmental law and to provide input for the Board so that issues can be studied fully prior to any Board decision. In addition, Staff is responsible for interacting with the legislature, serving the needs of Fund members, and managing the Fund's relationships with outside professionals and other constituencies.

### **Executive Director**

The Executive Director, a member of the Staff, is appointed by the Board, subject to the approval of the Governor. The Executive Director acts on behalf of the Board, and is responsible for performing duties as assigned by the Board, as well as for receipt of payments and deposits to the Fund, and payments from the Fund.

### **Investment Manager**

An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (i.e., banks and insurance companies and affiliates).

### **Custodian**

A Custodian for the Fund is a bank or trust company which is retained by the Board. A Custodian may be authorized to (1) hold securities and other investments in the name of the Fund, in the name of a nominee of the Custodian, or in bearer form; (2) collect and receive

income, interest, proceeds of sale, maturities, investments; deposit all these receipts in a custodian account or checking account as instructed by the Board; and reinvest these receipts as directed by the Board; (3) maintain accounting records and prepare reports which are required by the Board and the State Board of Accounts; (4) perform other services for the Board as are customary and appropriate for custodians; and (5) if retained, to conduct any analysis required by the Board.

### **Consultants**

Consultants are persons or firms who are retained by the Board for the Fund and responsible for providing investment advice to the Fund, based upon their expertise and their analysis of the issues under consideration.

## **SECTION 4. CODE OF ETHICS**

### **Fiduciary Responsibility**

The members of the Board recognize that they serve as fiduciaries of the Fund. One of their primary responsibilities is the prudent investment of Fund assets. Thus, the Board shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Board must also diversify the investments of the Fund in accordance with prudent investment standards. See IC 5-10.3-5-3. The Board has a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the beneficiaries of the Fund, as all Fund assets must be used for the exclusive benefit of the Fund's covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10.2-2-1.5. The Board may not engage in any transactions prohibited by Section 503(b) of the Internal Revenue Code. See IC 5-10.2-21.5(9). Board members or anyone acting on their behalf must comply with these provisions.

### **Compliance with Code of Ethics**

Board members recognize that they are governed by a strict code of ethics. Because they believe that public confidence in the Board's integrity is essential not only for members of the Fund, but also for the public and taxpayers of the State of Indiana as well, they wish to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. In accordance with the authority provided by IC 5-10.3-3-7(15), the PERF Board has adopted a resolution to place its employees under the jurisdiction of the State Ethics Commission and to be governed by the State Ethics Commissions rules.

The Indiana Code of Ethics covers employees and others (including, but not limited to, Consultants, Custodians, Investment Managers), and provides that:

It shall be unlawful for any person, other than employees performing their duties in making payments to employees as provided by law, to pay, or offer to pay, any employee any compensation for the performance of his official duties. See IC 4-2-6-5. Compensation includes any money, thing of value, or financial benefit. See IC 4-2-6-5.

### **Conflict of Interests Rules**

Board members recognize that all Fund transactions and selections are to be based on the integrity and competence of the parties with whom the Fund is dealing and upon financial merit and benefit to Fund members and their beneficiaries, and not on personal relationships. Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of official responsibilities as a Board member. Accordingly, a Board member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Board member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Board member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Board member shall disclose the reason for any such recusal.

### **Voting**

Board members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the Board member, or which affects the member only as a member of the general public or of a subgroup of the general public, such as members of the Fund as a whole.

### **Disclosure**

1. Any person who serves on the Board shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Fund.
2. Board members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Fund.

### **Specific Board Rules of Conduct**

In furtherance of the general principles stated above, the Board has adopted the following specific rules.

### **Contact with Investment Managers**

It is the Board's policy that all contact with Investment Managers or others seeking a business relationship with the Fund should be directed to the Executive Director and Staff, not to individual Board members. For example, during a manager, consultant or other professional search process, it is the Board's policy that no contact with prospective bidders and individual Board members is appropriate. However, the Board recognizes three exceptions to this general rule. First, this rule is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to the individual's status as a Board member. Second, this rule

is not applicable to contacts relating to Board business with Investment Managers and Consultants with whom the Board has an existing fiduciary relationship. For example, Board members are encouraged to contact an existing Investment Manager with any questions or concerns they might have with respect to a specific investment directed by that Investment Manager. Third, any other casual incidental contact with an existing or prospective Investment Manager or Consultant that a Board member has, not directed to specific Fund matters, should be disclosed to the Executive Director.

### **Gifts**

A Board member may not accept for personal use any gifts, favors, services, entertainment, food or drink valued at a total of more than \$25.00 in a calendar year from a person or business that is seeking or actually has a business relationship with the Fund. However, it is understood that this prohibition is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to his or her status as a Board member.

### **Speaking Engagements**

A Board member may not accept any expenses, reimbursement, or honorarium for any speeches or presentations made in his or her capacity as a Board member. This rule does not apply to circumstances where the individual is speaking or presenting in a capacity unrelated to Board membership or as to which Board membership is simply recognized as a part of such member's professional experience.

### **Conferences and Educational Activities**

Board members are encouraged to attend appropriate educational conferences and meetings to assist them in performing their duties. It is the Board's policy to reimburse Board members for expenses related to such activities. The Executive Director will serve to coordinate attendance and administer reimbursement, subject to any required procedure.

### **Responsibilities of Investment Managers and Consultants**

In order to accomplish these objectives, each Investment Manager and Consultant retained by the Fund shall be notified in writing of the Board's Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Board's adoption of this Code. All Investment Managers shall strictly conform to the Board's Code of Ethics. Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager or Consultant, in writing, to all members of the Board.

The Board recognizes that Investment Managers and Consultants have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Investment Managers, Consultants or Staff. Any such incidents should be reported, in writing, by the Investment Manager or Consultant to all members of the Board.

All Investment Managers, Consultants and other persons retained in any capacity which have fiduciary responsibilities are expected to abide by the provisions of the Board's Code of Ethics.

## **SECTION 5. GENERAL OBJECTIVES**

The investment activities are to be designed and executed in a manner that serves the best interests of the members and beneficiaries of the Fund.

The investment activities are designed to provide a return on Fund assets that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the Fund. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plans' actuarially determined liabilities over time, at a reasonable cost to the members and the taxpayers of the State.

The Board has the authority and intends to establish allocations to various asset classes and subcategories as described in Section 6, subject to general and specific guidelines established in Section 8. Evaluation of Investment Manager performance and total Fund performance will be done pursuant to Sections 7 and 13.

## **SECTION 6. ASSET ALLOCATION**

The Board recognizes that the allocation of assets, particularly the broadly-defined mix between stocks and bonds, is the most important determinant of investment rates of returns over long periods of time.

### **Background Information**

To guide their selection of the best asset mix, the Board considered the linkage of liability projections with asset projections over future time periods. Key factors were the "Employers' Contributions as a Percentage of Pay" and the "Funded Ratios" which would be necessary to provide the promised benefits to Fund beneficiaries.

### **Selected Allocations**

The following asset classes, target norms, and allowable ranges have been established.

<u>Asset Classes</u>	<u>Target Norm</u>	<u>Allowable Range</u>
EQUITIES-Domestic	45%	42% to 51%
EQUITIES-International	11%	8% to 17%
EQUITIES-Global	9%	6% to 15%
FIXED INCOME-Core	20%	17% to 26%
FIXED INCOME-TIPS	10%	7% to 16%
ALTERNATIVES	5%	2% to 11%

Within each asset class, the Board in its discretion may establish subcategories, and the Board also may establish the mix between active Investment Managers and passive index Investment Managers.

### **Rebalancing**

The Board has determined that tactical asset allocation in anticipation of expected future market fluctuations is not in the best interest of the Fund. However, differential market returns may from time to time cause some allocations to move to the upper or lower ends of their allowable ranges. Given this inherent phenomenon, the Board has determined that a systematic and objective reallocation from one class to another is an appropriate activity for ensuring compliance with the Asset Allocations.

This re-balancing activity will adhere to the following process:

- Actual asset class values versus target/range values will be evaluated by the Investment Staff on a monthly basis.
- Data for this evaluation will come from the Custodian end of month asset pricing.
- If an asset class falls outside of its range then:
  - Investment Staff will compile and present a Re-balancing Proposal to the "Re-balancing Committee".
- The Investment Staff Re-balancing Proposal will consider:
  1. Identification of the asset class(es) out of range,
  2. A recommendation of which asset classes should be re-balanced,
  3. A recommendation on how re-balancing will be implemented,
  4. A recommended time frame for the re-balancing implementation,
  5. Estimated cost impact of the action, and
  6. Any other pertinent implications of the recommended action.
- The "Re-balancing Committee" shall consist of the following members:
  - PERF Chief Investment Officer,
  - PERF Executive Director
  - Representative(s) of PERF's investment consultant, and
  - The Chairman of the Investment Committee or his/her designee.
- The Re-balancing Committee will confer with the Investment Staff over the recommendation and approve and finalize the reallocation of assets.
- Investment Staff will implement the reallocation of assets.
- The Chief Investment Officer will report to the Investment Committee no less than monthly:
  - Actual asset class values versus target/range values.
  - Any action taken by the Re-balancing Committee for the reporting period, in the form of a record of action document that describes what was rebalanced, why it was rebalanced and when it was rebalanced.

### **Re-balancing within Sub-Asset Classes**

To further insure compliance with the asset allocation decisions of the Board, the Chief Investment Officer, with the Executive Director's approval, shall have the authority to re-balance between the subcategories (sub-asset classes) within a single asset class, as listed in Appendix A of this Policy. However, re-balancing between two different asset classes must comply with the above re-balancing process.

### **Review**

The asset allocation will be reviewed periodically, but no less frequently than every three years. Asset liability modeling studies will be conducted as the Board determines necessary.

## **SECTION 7. INVESTMENT PERFORMANCE STANDARDS**

### **Introduction**

The Board recognizes the need to evaluate the investment performance of the Investment Managers who have been delegated the duty to invest the assets of the Fund, and further recognizes that Investment Managers are under a strict fiduciary duty to the Fund. Further, the Board recognizes the need to evaluate the performance of the total Fund. Therefore, the Board wishes to establish clear standards for execution of this fiduciary duty. The Board intends to evaluate the performance of each Investment Manager pursuant to Section 13.

### **Performance Evaluation Factors for Total Fund**

The key factors to be used in the analysis of the investment performance of the total Fund include:

- The funded status of the Fund.
- Investment rate of return and volatility of the Fund, compared with a weighted average of market indexes which best describe the Fund's allocation.
- Investment rate of return of the Fund, compared with other large private and public pension funds with special emphasis on other large public funds.

### **Performance Evaluation Factors for Investment Managers**

The key comparative factors to be used in the analysis of the performance of an Investment Manager include:

- Investment rates of return of the Investment Manager compared to an appropriate market index benchmark.
- Investment rates of return of the Investment Manager compared to an appropriate universe or style peer group.



- The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index benchmark.

Rates of return for an Investment Manager will be calculated based on the total of the Investment Manager's allocation of Fund assets.

Volatility will be measured by the standard deviation of the historical series of rates of return over a period of not less than three years.

Compliance with the Fund's guidelines applicable to the particular asset class under management will be considered in the evaluation of the Investment Manager's performance within its specific style.

### **Performance Evaluation Standards**

Rates of return will be evaluated on both a gross and net of fee basis. The calculation of the investment rates of return will be consistent with the provisions of Section 13. In order to provide more definition and consistency, one year, three year, five year, and rolling three and five year periods will be used. Rolling periods shall be defined as a three (or five) year period beginning with the earliest reasonable date and including subsequent three (or five) year periods each beginning one year later until the ending date is the end of the current period. If needed to further evaluate investment performance, other time periods may be employed.

The following standards will be used as a guideline for the evaluation of the investment performance of the Investment Managers:

- Gross of fee rates of return ranking at or above the median of an appropriate universe or style peer group of investment managers, on one year, three year, and rolling three year periods.
- Net of fee rates of return exceeding an appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.
- Risk - adjusted rates of return exceeding an appropriate market index benchmark, on a three year, rolling three year, five year and rolling five year periods.
- Volatility consistent with the assigned asset class, and relative to the appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.

## **SECTION 8. INVESTMENT GUIDELINES**

### **General Guidelines for Investment Managers**

Each Investment Manager retained to manage a portion of the assets (the Investment Manager's "Portfolio") of the Fund shall be aware of and operate within this Investment Policy and governing Indiana statutes. Subject to the guidelines in this Section and the policies documented in this Statement, any Investment Manager retained by the Fund is to have full

discretionary investment authority over the assets said Investment Manager is responsible for managing.

As fiduciaries of the Fund, all Investment Managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the Investment Managers, other than Investment Managers covered by the Alternative Investment Policy Statement in Section 15 of this policy, shall observe the following rules:

- **Specific Limitation on Holdings.** The purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 7.5% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

For managers contracted to manage a concentrated portfolio, the purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 7.5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 15% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

- **Securities Trading.** Each Investment Manager is to immediately send copies of each transaction record to the Fund's Custodian(s), and any designated agent of its Custodian(s). Each Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Investment Manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms.
- **Acknowledgments of Legal Compliance.** Each Investment Manager retained by the Fund must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.
- **Acknowledgments of Receipt.** All Investment Managers shall acknowledge in writing their receipt of this Policy and their agreement to abide by its terms. All Investment Managers shall have an affirmative duty to bring suggestions for modification or change of the Policy to the Board.
- **Fiduciary Liability Insurance.** Each Investment Manager will obtain fiduciary coverage, with a minimum of \$5 Million coverage or \$25 Million in pooled coverage, or in such higher amount as required by the Board from time to time. The fiduciary coverage must cover a loss resulting from a breach of fiduciary duty

in providing or failing to provide professional services to the Fund. In some cases, fiduciary coverage may be established through errors and omissions (E&O) or professional liability policies (including, for some Investment Managers, a "blanket bond" if the bond also provides coverage for fiduciary liability), as long as those policies are specifically written to cover fiduciary breaches themselves or include a specific fiduciary liability endorsement or rider.

Each Investment Manager shall annually provide written evidence of such coverage. The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- **Errors and Omissions Coverage.** Each Investment Manager will obtain coverage for errors and omissions to cover a loss due to a mistaken or negligent act or omission (without any exclusions for benefit plans that would exclude services the Investment Manager provides for PERF from coverage), with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.

The Executive Director may approve alternative errors and omissions coverage, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- **Fidelity Bond.** Each Investment Manager will obtain a fidelity bond, which covers loss from acts of dishonesty, theft, or negligence, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.

The Executive Director may approve alternatives to a fidelity bond, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- **Proxy Voting.** Each Investment Manager will abide by the Fund's Proxy Voting Policy as stated in Section 12 of this Statement. Each Investment Manager will provide an annual report of proxy voting activity to the Fund consistent with the requirements of Section 12.
- **Conflicts of Interest.** An Investment Manager shall be subject to the applicable provisions of Section 4 of this Statement. An Investment Manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such Investment Manager receives prior written approval from the Board.

This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no Investment Manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such Investment Manager receives prior written approval from the Board.

- **Prohibited Securities and Transactions.** Except as otherwise authorized by the Board, the following transactions shall be prohibited:
  - 0 Short sales of any kind
  - 0 Repurchase agreements that may create any kind of leverage in the portfolio. (Repurchase agreements as cash equivalents are permitted.)
  - 0 Purchases of letter or restricted stock
  - 0 Buying or selling on the margin
  - 0 Purchases of futures and options, except where specifically noted in Specific Guidelines
  - 0 Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director.
  - 0 Purchases of Interest Only or Principal Only collateralized mortgage obligations
  - 0 Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
  - 0 Any transactions giving rise to unrelated business taxable income (excluding current holdings)
  - 0 Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
  - 0 Purchases of precious metals
  - 0 Purchases of commodities
  - 0 Purchases of inverse floaters
- **Commingled and Pooled Investments.** In accordance with IC 5-10.2-2-2.5, Investment Managers may, with the express written permission of the Chief Investment Officer of the Fund, invest in commingled or pooled funds that otherwise comply with the guidelines in this Policy.
- **Correction of Violations.** In the event a violation of the guidelines occurs, unless otherwise approved by the Executive Director in writing, based upon a determination of the best interests of the Fund, the violation:
  - 0 Shall be corrected immediately by sale as soon as practicable following detection and notification, unless the Executive Director has agreed in writing to a correction which does not result in immediate disposition or sale

- 0 Shall result in the reimbursement of the Fund by the Investment Manager for any losses which may have been incurred due to the violation
- 0 Shall result in the Fund retaining any gains which are realized from the violation
- 0 May be grounds for termination by the Board

### **Reporting Procedures for Investment Managers**

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically, the Staff will provide the Investment Manager with a detailed description and format for these reports.
- Make a presentation to the Board or its designated committee when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
  - 0 a loss of one or more key people
  - 0 a significant change in investment philosophy
  - 0 a new portfolio manager(s) or account manager(s) on the Fund's account
  - 0 a change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) or in business focus of the Investment Manager
  - 0 loss of a significant client relationship(s)

- 0 any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

### **General Guidelines for the Investment of the Specific Portfolios**

Each Investment Manager will be retained to implement a specific investment strategy for the Fund. This strategy and its underlying philosophy will be described in the Investment Manager's contract and the Portfolio will be managed according to this strategy until such time as the Board and Investment Manager agree in writing to any change.

Generally, the structure of the Fund is expected to include the following asset classes and management strategies (see Appendix A for benchmark information):

<u>Asset Class</u>	<u>Sub-Asset Class</u>
<b>Fixed Income - CORE:</b>	Enhanced 1-3 Year Gov./Credit Core Core – Enhanced Core – Active Core – Opportunistic
<b>Fixed Income - TIPS:</b>	TIPS – Index TIPS – Enhanced TIPS – Active
<b>Domestic Equity:</b>	Index Enhanced Index Large Cap Core Large Cap Value Large Cap Growth  Mid Cap Value Mid Cap Growth  Small-Mid Cap Value Small-Mid Cap Growth  Small Cap Value Small Cap Growth
<b>International Equity:</b>	International Index International Enhanced International Core International Value International Growth

<b>Global Equity:</b>	Global Core Global Value Global Growth
<b>Alternative Investments:</b>	See Alternative Policy
<b>Securities Lending:</b>	Cash Collateral Reinvestment -- specific guidelines for this asset class are covered in an Addendum to this Policy.

### **Specific Guidelines for Domestic Equity Portfolios**

- **Core Index Management**
  - 0 Description: Investment in a portfolio of stocks that substantially matches the return and standard deviation of the benchmark.
  - 0 Investment Constraints: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depositary Receipts (ADRs), that substantially matches the composition and characteristics of the market index benchmark. Futures contracts in the benchmark index may be used for the sole purpose of investing cash flows and may not be used to leverage the Portfolio.
  - 0 Benchmark: See Appendix A
  - 0 Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- **Core Enhanced Index Management**
  - 0 Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depositary Receipts (ADRs), that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
  - 0 Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
  - 0 Benchmark: See Appendix A.

- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core Active Management**

- 0     Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depositary Receipts (ADRs), that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 0     Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 0     Benchmark: See Appendix A.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Capitalization and Style-Specific Active Management**

- 0     Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depositary Receipts (ADRs), that substantially matches the composition and characteristics of the index benchmark. This benchmark represents the specific market capitalization range, as well as style (e.g., growth or value), as determined by the Board. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 0     Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 0     Benchmark: See Appendix A.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.



## **Specific Guidelines for International Equity Portfolio**

- **Core Index Management**

- 0 Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges or traded on over-the-counter markets that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted.
- 0 Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI (Morgan Stanley Capital International) as "emerging" are allowed unless approved in advance and in writing by the Board.
- 0 Benchmark: See Appendix A.
- 0 Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 0 Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core Enhanced Index Management**

- 0 Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges or traded on over-the-counter markets that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 0 Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may not exceed 20% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.
- 0 Benchmark: See Appendix A.

- 0     Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- **Style-Specific Active Management**
  - 0     Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and primarily listed on foreign exchanges or traded on over-the-counter markets that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *substantially* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
  - 0     Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may not exceed 20% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.
  - 0     Benchmark: See Appendix A.
  - 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
  - 0     Currency Hedging: Currency hedging is at the investment manager's discretion.

### **Specific Guidelines for Global Equity Portfolios**

- **Core Active Management**
  - 0     Description: Investment in a portfolio of equity securities of companies primarily listed or traded on exchanges and over-the-counter markets throughout the world. Investments in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. Portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.

- 0     Investment Constraints: As specifically stated in each manager's contract. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 0     Benchmark: See Appendix A.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

### **Style-Specific Active Management**

- Description: Investment in a portfolio of equity securities of companies primarily listed or traded on exchanges and over-the-counter markets throughout the world. Investments in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically stated in each manager's contract. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.
- Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

### **Specific Guidelines for Fixed Income Portfolios**

- **Enhanced 1-3 Year Government/Credit**
  - Description: Investment in a portfolio of fixed income securities that substantially matches the quality, coupon, maturity structure and duration characteristics of the benchmark index.

Subject to the following limitations, portfolios may utilize mortgage backed and asset backed securities, Collateralized Mortgage Obligations ("CMO's"), Collateralized Mortgage Backed Securities ("CMBS,") floating rate notes, and highly structured CMO's with similar quality, coupon, maturity structure and duration characteristics of the benchmark index.

The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US dollar denominated corporations unless specifically approved by the Board.

No single issuer securities may represent more than 10% of the portfolio, other than US Government and Agency securities. Individual security holdings (other than US Government and Agency securities) shall be limited to 5% of the total portfolio measured at market value.

Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company.

In no event shall any individual security, or combination of securities, create leverage in the portfolio.

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at a minimum cost and accurate market valuation.

- Benchmark: See Appendix A.
- Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core**

- 0 Description: Investment in a portfolio of fixed income securities that substantially matches the quality, coupon, maturity structure and duration characteristics of the benchmark index.

- 0 Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US corporations, foreign sovereign governments and foreign corporations traded on U.S. exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A Securities that are included in the benchmark may be purchased. Futures contracts may be used for the purpose of investing cash flows or modifying

duration, but in no event may leverage be created by any individual security or combination of securities.

0 Benchmark: See Appendix A.

0 Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core - Enhanced**

0 Description: Investment in a portfolio of fixed income securities that exhibits characteristics substantially similar to the benchmark index. Portfolios may vary in terms of number of securities held and, from time to time, vary moderately from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, and yield) of the portfolio. The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used. It is expected that the strategy employed will produce returns net-of-fees which exceed the benchmark index, and will not incur significantly greater risk.

0 Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, and Yankees (bonds that are U.S. dollar – denominated and issued in the United States by foreign entities), foreign sovereign governments and foreign corporations traded on U.S. exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration only, and in no event may leverage be created by any futures contract, individual security, or combination of securities. All holdings will be of sufficient size and held in issues that are trading actively enough to facilitate transactions at a minimum cost and accurate market valuation.

0 Benchmark: See Appendix A.

0 Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core - Active**

- 0 Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios may vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 125% of that of the benchmark index.

- 0 Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, Yankees, foreign sovereign governments and foreign corporations traded on US exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration only, and in no event may leverage be created by any futures contract, individual security, or combination of securities. All holdings will be of sufficient size and held in issues that are trading actively enough to facilitate transactions at a minimum cost and accurate market valuation.
- 0 Benchmark: See Appendix A.
- 0 Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 0 Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **Core - Opportunistic**

- 0 Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios are expected to vary in terms of number of securities held and are expected to vary from the index in terms of statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. No more than 20% of the portfolio may be rated lower than Baa3 (Moody's) or the equivalent. Securities must be rated at least B3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

No more than 20% of the portfolio may be invested in non-US dollar denominated government or non-US dollar denominated corporation securities. The portfolio may not be invested in emerging markets' securities.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 150% of that of the benchmark index.

- 0 Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, Yankees, foreign sovereign governments and foreign corporations traded on US exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration only, and in no event may leverage be created by any futures contract, individual security, or combination of securities. All holdings will be of sufficient size and held in issues that are trading actively enough to facilitate transactions at a minimum cost and accurate market valuation.
- 0 Benchmark: See Appendix A.

- 0     Currency Hedging: Currency hedging is at the investment manager's discretion.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **TIPS – Index**

- 0     Description: Investment in a portfolio of U.S. Treasury Inflation Protection Securities (TIPS) that substantially matches the quality, coupon, maturity, structure and duration characteristics of the benchmark index.
- 0     Investment Constraints: No securities may be held other than those publicly traded, dollar denominated Treasury debt securities of the U.S. Government unless specifically approved by the Board. Futures contracts may be used for the purpose of investing cash flows or modifying duration only and in no event may leverage be created by any futures contract, individual, or combination of securities.
- 0     Benchmark: See Appendix A.
- 0     Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **TIPS – Enhanced Index**

- 0     Description: Investment in a portfolio of fixed income securities that exhibits characteristics substantially similar to the benchmark index. Portfolios may vary in terms of number of securities held and, from time to time, vary moderately from the index as measured by the statistical characteristics (e.g. sector concentration, maturity, duration, and yield) of the portfolio.

Securities must be investment grade with an average credit quality of Aaa (Moody's) with a minimum credit rating of A3 (Moody's) or equivalent by one or more nationally recognized statistical rating organizations (NRSRO). Cash equivalents (securities with final legal maturities of 270 days or less), may include Aaa / P1 (Moody's) or equivalent securities. The underlying credit's short-term proxy rating may be used for meeting the minimum credit requirement. Securities which fall below the stated minimum credit requirement, subsequent to initial purchase will be sold in a reasonable timeframe and may be held only with the approval of the Board.



It is expected that the strategy employed will produce returns net-of-fees that exceed the benchmark index, and will not incur significantly greater risk.

- 0 Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated, Inflation-Indexed and Non-Inflation-Indexed obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. Government-sponsored corporations or agencies and inflation-indexed securities of U.S. Corporations. Inflation-Indexed obligations issued or guaranteed by U.S. local, city, and state governments and agencies that exhibit characteristics consistent with the benchmark index are allowed. Cash equivalents (securities with final legal maturities of 270 days or less), may include Asset Backed Floating Rate Note Securities and Commercial Paper. Inflation-Indexed securities defined under Rule 144A are permitted. Futures contracts may be used for the purpose of investing cash flows or modifying duration only and in no event may leverage be created by any futures contract, individual security or combination of securities.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

Inflation-Indexed and Non-Inflation-Indexed securities covering the full range of available maturities are acceptable. The portfolio will invest a minimum of 70% of the assets in Inflation-Indexed securities. A 20% maximum in Non-Inflation-Indexed Agencies or Mortgages, respectively, with a Maximum 1 Year Dollar Duration is allowed, with a 30% maximum in Non-Inflation-Indexed Agencies and Mortgages, total, with a maximum 1 Year Dollar Duration. The Portfolio may invest in a maximum 10% Inflation-Indexed securities with less than a Aaa (Moody's) rating.

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at a minimum cost and accurate market valuation.

- Benchmark: See Appendix A.
- Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- **TIPS – Active**

- Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios are expected to vary in terms of number of securities held and are expected to vary from the index in terms of

statistical characteristics (e.g. sector concentration, maturity, duration, and yield) of the portfolio.

Securities must be investment grade with an average credit quality of Aa1 (Moody's) with a minimum credit rating of Baa3 (Moody's) or equivalent by one or more nationally recognized statistical rating organizations (NRSRO). Securities not covered by these standards will be, in the judgment of the Manager, at least equal in credit quality to the criteria implied by those standards.

Cash equivalents (securities with final legal maturities of 270 days or less), may include Aaa / P1 (Moody's) or equivalent securities. The underlying credit's short-term proxy rating may be used for meeting the minimum credit requirement.

Securities which fall below the stated minimum credit requirement, subsequent to initial purchase will be sold in a reasonable timeframe and may be held only with the approval of the Board.

It is expected that the strategy employed will produce returns net-of-fees that exceed the benchmark index, and will not incur significantly greater risk. The performance expectation will be treated as a target only and should not be considered as an assurance or guarantee of performance.

- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated, Inflation-Indexed and Non-Inflation-Indexed obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. Government-sponsored corporations or agencies, U.S. Corporations and Inflation-Indexed and Non-Inflation Indexed obligations denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants and forward contracts.

Inflation-Indexed obligations issued or guaranteed by U.S. local, city, and state governments and agencies that exhibit characteristics consistent with the benchmark index are allowed. Cash equivalents (securities with final legal maturities of 270 days or less), may include AAA rated Asset Backed Securities (ABS), Floating Rate Note Securities, A1/P1 Commercial Paper and Repurchase Agreements. Inflation-Indexed securities defined under Rule 144A are permitted.

Futures contracts may be used for the purpose of investing cash flows or modifying duration only and in no event may leverage be created by any futures contract, individual security or combination of securities.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

Inflation-Indexed and Non-Inflation-Indexed securities covering the full range of available maturities are acceptable. The portfolio will invest a minimum of 70% of the assets in Inflation-Indexed securities. Up to 30% of the portfolio may be invested in dollar denominated Non-Inflation-Indexed obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U. S. Government-sponsored corporations or agencies and U.S. Corporations. Asset Backed Securities (ABS) and Mortgaged Backed Securities (MBS) are eligible securities for this allocation. Obligations issued or guaranteed by the U.S. Government, U.S. Agencies or U.S. Government sponsored corporations and agencies are eligible without limit. Up to 20% of the portfolio may be invested in non-dollar denominated Inflation-Indexed obligations of foreign governments, or their subdivisions or agencies, international agencies, or supranational entities. Obligations of foreign governments, international agencies, supranational entities and foreign governments (or their subdivisions or agencies), are limited to 10% per issuer and must be in Inflation-Indexed obligations. Obligations of issuers other than foreign or domestic governments, agencies or government sponsored corporations are subject to 5% per issue limit excluding investments in commingled vehicles.

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at a minimum cost and accurate market valuation.

- Benchmark: See Appendix A.
- Currency Hedging: Currency hedging is at the investment manager's discretion. Cross hedging of currency is not permitted.
- Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

## **SECTION 9. GUIDELINES FOR THE CUSTODIAN**

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. Every Custodian is a fiduciary as to the assets placed with them by the Fund.

The Board identifies the following as responsibilities of the Custodian(s) for the segments of the Funds for which each Custodian is responsible:

- A.** Provide complete custody and depository services for the designated accounts.
- B.** Provide for prompt investment of any cash to avoid uninvested amounts.

- C. Implement in a timely and effective manner the investment actions as directed by the Investment Managers(s).
- D. Collect and receive all income and principal realizable and properly report transactions in periodic statements.
- E. Provide monthly and annual accounting statements as well as on-line access accounting for the Fund, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Board.
- F. Report to the staff situations where security pricing is either not possible or subject to considerable uncertainty.
- G. Distribute to the Investment Manager(s) in a timely manner all proxy voting materials.
- H. Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other issues.
- I. As requested by Board, provide performance measurement and portfolio analytics for the Fund, consistent with AIMR standards.
- J. When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the Fund, and report fully on all aspects of its operation and returns.
- K. Monitoring. The Custodian shall cooperate fully and with all reasonable requests for documents and records made by the Board or a Consultant designated by the Board. The Board (on its own or through its Consultant) shall periodically review its Custodians, including but not limited to, services provided, services available, charges and fees, and reports.

## **SECTION 10. SECURITIES LENDING POLICY**

### **Background**

IC 5-10.2-2-13(d) provides that the Board may authorize a Custodian to enter into a securities lending program agreement under which securities held by the Custodian on behalf of the Fund may be loaned. The purpose of such a program is to provide additional revenue for the Fund. IC 5-10.2-2-13(d) provides that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities.

## **General Statement With Respect to Board's Intent**

The Board intends to maintain a securities lending program, as the Board believes it provides a means of enhancing the overall Fund performance. The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to the program and the risks inherent in the program. The Board expects each Custodian who has been authorized to enter into an agreement to evaluate at least annually the agent selected by the Custodian and the Board, to offer suggestions with respect to any possible improvements in the program, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program) and report to the Board as directed.

## **Method of Implementation**

The securities lending program may be implemented through a Custodian or through a sub-agent of a Custodian. Subject to the approval of the Board, any current Custodian for the Fund may implement a securities lending program for the assets placed at that particular institution. Any Custodian may utilize a sub-agent at its discretion to conduct its securities lending program in lieu of maintaining an in-house capability. The use of any sub-agent must be approved in advance and in writing by the Board, and such approval may be revoked for any reason by the Board upon five (5) days written notice to the Custodian. It shall be the responsibility of the Custodian to ensure that their sub-agent adheres to all aspects of these Guidelines as well as any additional contracts which exist in addition to these Guidelines.

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

## **Risk Controls**

The Custodian and/or securities lending sub-agent will provide agreed upon indemnification to the Fund (the Lender) from and against any losses, damages, costs and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. Upon notification of default by the borrower, which shall be reported immediately to the Board in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The name of borrowers and potential borrowers shall be updated and provided to the Board promptly following the end of each calendar quarter.

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 100% collateralized. Specific requirements for the amount of collateral

required for loans on each type of security, as well as the quality and guidelines for investment of such collateral shall be defined in the Securities Lending Agreement.

Securities shall not be loaned in excess of forty percent (40%) of the market value of Fund's assets (not be taken on an individual manager account-by-account basis) under the care of the Custodian, marked to market on a day-to-day but not on an intra day basis.

Cash collateral shall be invested by the Custodian, and/or its security lending sub-agent pursuant to the Addendum for Securities Lending Cash Collateral Reinvestment. All investments shall be subject to the prudent investor rule, IC 5-10.3-5-3.

The Fund shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.

### **Monitoring**

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Custodian and/or securities lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the Board and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The Fund shall receive a monthly report of the securities on loan, the income received from loans, the Custodian's and sub-agent fees from loans, the composition of collateral, and the investment characteristics of the collateral. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

The Board (on its own or through its Consultant) shall conduct an annual review of the Securities Lending Program. At this time, the Board will also survey its Investment Managers to ensure they have not encountered any problems with the Program.

## **SECTION 11. TRADING AND BROKERAGE POLICY**

### **Introduction**

The Board intends to fulfill its responsibility for the evaluation and management of transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, this security transactions policy has been approved by the Board.

### **Basic Principles**

The Board requires that these principles guide all transactions for the Fund:

Best execution and lowest cost, (including commission costs and market impact) and providing benefits exclusively for members and beneficiaries of the Fund must apply to trades.

Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the Fund are not jeopardized, will be ongoing.

The Board will retain the ability to enter into brokerage commission recapture agreement(s). The Board will evaluate transaction activity annually, through a Trading Cost Analysis.

The Board intends there to be a prohibition on any self dealing on the part of any brokerage firm, including any with such a firm's broker affiliate, without specific prior authorization.

### **Basic Criteria for Selection of Brokerage Firm**

The primary responsibility of the Board is to act as a fiduciary to the members and beneficiaries of the Fund. It is the intent of the Board that all transactions of publicly traded securities be effected through brokerage firms, regardless of location, in order to obtain the best execution and lowest cost of the transaction.

Subject to any direction from the Board, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each Investment Manager is also responsible for conducting all appropriate and necessary due diligence on the brokerage firms it selects. Their selection must in all cases be for the exclusive benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

Provided that the total return of a Investment Manager's Portfolio is not adversely affected or that the investment process is not affected so as to place the Fund in a disadvantageous position relative to the Investment Manager's other accounts, and provided that best execution and lowest cost are obtained, each Investment Manager may be requested to direct a percentage of its trading to specified firms for the purpose of brokerage commission recapture programs. In such a case, the Board will select the brokerage firms, with the assistance of the Investment Managers, and establish the expected level of trading to be directed.

### **Review/Evaluation**

At least annually, the Board will review all transactions and arrangements, if any, for compliance with these policies through an annual Trading Cost Analysis. The Investment Managers and Custodian[s] providing services shall provide any information necessary or helpful to this review.

### **Disclosure**

In addition, each Investment Manager shall report at least annually on brokerage firms they are using and the terms of that relationship. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

## **SECTION 12. PROXY VOTING POLICY**

### **Introduction**

The Fund is a large public pension fund and will become a significant equity investor in the stocks of corporate America. The Board recognizes its responsibilities as a fiduciary of the Fund. The Board believes that a proxy policy is an important element of its overall asset management. As an initial position, the Board believes a delegation of authority to other fiduciaries of the Fund, the Investment Managers, will be the most suitable approach.

Each Investment Manager who is retained by the Fund to buy, sell or manage common stocks which are Fund assets will have the responsibility of voting the common stock. To the extent that a third-party is used to assist in some aspect of the Investment Manager's proxy voting, the Investment Manager must inform the Fund of the third-party used and their exact responsibility. In completing this responsibility, each Investment Manager is expected to take these proxy voting guidelines into consideration.

### **Guidelines**

The Investment Manager is to exercise its proxy voting authority for the exclusive benefit of Fund members and beneficiaries, realizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting the proxies of common stocks, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration, as required under IC 5-10.3-5-3. The Board intends that this embody the most rigorous application of this standard, that the Investment Manager act with an eye solely to the best interests of the plan participants. Leigh v. Engle, 727 F2d 113, at 125.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of members and beneficiaries should guide the voting decisions.

### **Reporting Requirements**

The Board intends to monitor the voting decisions of Investment Managers. To allow this to occur, each Investment Manager who votes shares of common stock will document such votes and report to the Board no less frequently than annually.

The report shall include at a minimum the following:

- A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date.
- The action taken on routine proxies.
- The action, and rationale for the action, taken on non-routine proxies.



- A description of actions in terms of any effects on members and beneficiaries of the Fund, the Indiana economy and any special Indiana issues.

### **Revocation of Voting Authority**

The Board may revoke the authority of a Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager.

## **SECTION 13. PROCEDURES FOR EVALUATION OF INVESTMENT MANAGERS**

### **General Statement**

Periodic reports should supply critical information on a continuing basis, such as the comparative investment performance, portfolio positions relative to stated strategy, and other perspectives of the Portfolios as requested by the Board. The reports should be examined to determine whether investment policy guidelines are being followed, and the Fund as well as the individual Investment Managers are meeting the established objectives.

### **Performance Measurement**

A time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained. Investment Managers will be expected to comply with the Association for Investment Management and Research's (AIMR) Performance Presentation Standards in calculating and reporting their investment performance. The Fund, and any firms retained by the Fund to calculate investment performance, will also adhere to the AIMR Standards.

### **Meetings**

The Investment Manager(s) are expected to meet at least annually with the Board or its representatives to review the Portfolio and investment results in the context of this Policy. The Custodian is expected to meet at least annually with the Board or its representatives to review its responsibilities.

### **Compliance Report**

Annually, the Board will confirm that the Fund and each of its managed Portfolios have complied with the stated investment policies and guidelines herein, including, but not limited to, the proxy voting policy and the policy for trading.

### **Reporting Procedures for Investment Managers**

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since the last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically, the Staff will provide the Investment Manager with a detailed description and format for these reports.
- Make a presentation to the Board or its designated committee when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
  - a loss of one or more key people
  - a significant change in investment philosophy
  - a new portfolio manager(s) or account manager(s) on the Fund's account
  - a change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Investment Manager
  - loss of a significant client relationship(s)
  - any investigation or action by a federal or state regulatory body
  - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

### **Evaluation Procedures**

The Board intends to review at least quarterly the performance of the Fund and of each Investment Manager Portfolio relative to the objectives and guidelines described herein.

The investment performance review may include comparisons to:

- unmanaged market indices
- other public pension funds
- a broad universe of investment managers
- the Consumer Price Index
- any other indices or measures the Board deems appropriate from time to time

Further, the Board shall at least annually consider:

- staffing of personnel
- stability of business
- changes in product offerings
- organizational structure
- conformance to this policy
- changes in investment strategy and developments in capital markets as they impact strategy
- changes in resources
- communications to the Fund

The Board reserves the right to suspend or terminate any manager at any time. Such right may be delegated to the Investment Committee.

#### **SECTION 14. STANDARDS FOR THE SELECTION OF INVESTMENT MANAGERS, CONSULTANTS AND CUSTODIANS**

The Board realizes that from time to time it will need expert assistance in fulfilling its fiduciary duties. The Board expects to retain Custodians, Investment Managers and Consultants to provide such assistance. Each such entity selected will serve as a fiduciary to the Fund.

##### **Basis for Selection**

For any type of expertise or assistance which is to be retained by the Board, selection shall only be made based upon the demonstrated ability of the professional(s) to provide the expertise or assistance needed.

## **Process for the Selection of Professional Assistance**

The process shall conform to the legal requirements for professional service procurement under the State statutes. When deemed necessary by Staff and with the approval of the Board, Consultants or other professionals not involved in the specific selection shall assist in the development of requirements, evaluation standards and analysis of responses for the selection process. It is the intent of the Board that the selection process be open to all qualified organizations wishing to participate.

## **SECTION 15. POLICY WITH RESPECT TO ALTERNATIVE INVESTMENTS**

The Board of Trustees of the State of Indiana Public Employees' Retirement Fund (PERF or the Fund) hereby adopts the following Alternative Investment Policy Statement. Effective November 8, 2002, all alternative investments shall be made in accordance with this policy. The Board recognizes that these investments will be an initial user of capital and investment results will be difficult to assess during the first 3-5 years of the program.

The Board of Trustees has approved a target allocation to Alternatives of 5% to be achieved over six years. The Board believes the Fund's equity returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in alternatives. The strategic objective is to generate returns:

- 1) Superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with alternative investments;
- 2) Above the median of comparative universe returns; and,
- 3) Approximately 500 basis points over public market equity investments, as measured by the Russell 3000 Index, net of fees and expenses.

## **General Statements With Respect to Board's Intent**

The objective of the alternative investment program is to provide enhanced returns for the Fund, at an acceptable level of risk. All alternative investments shall be made consistent with Section 8 of PERF's Statement of Investment Policy (Policy). The role of the Board is to make strategic decisions with respect to this asset class and will review this policy statement annually. Alternative investment vehicles may include, but are not limited to, venture capital, corporate buyouts, real estate, and private placements. The Board may consider investing in these assets if and only if the vehicles meet all standards pursuant to Sections 6, 7 & 8 of the Policy.

- The strategic allocations for alternative investments, as approved by the Board, are as follows:

<b>Sub-categories</b>	<b>Target Allocations</b>	<b>Max/Min. Ranges</b>
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<i>Private Equity</i>		
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Venture capital	20%	15% to 25%
Buyouts	30%	20% to 30%
Debt-related	25%	20% to 30%
International	5%	0% to 10%
<i>Real Estate</i>		
REITs (Core)	10%	5% to 15%
Opportunistic real estate	10%	5% to 15%

Portfolio construction will be designed to produce a return mix including both current income and capital appreciation. Targeted Fund commitments will be completed within five to seven years

- No more than ten percent of the Fund's total allocation to alternative investments may be committed to any one partnership, without the approval of the Board.

While specific investments may incur losses of all or part of the capital invested, it is expected that a diversified portfolio of alternative investments will produce a positive return significantly in excess of publicly traded domestic equities. Diversifiable risks associated with this portfolio include position in the capital structure, the timing and amounts of cash flows, the size of the individual investments, and their sensitivities to business cycles. The risks associated with alternative investments will be viewed within the context of the entire Fund. The Board may overweight sub-asset classes within alternative investments to improve the Fund's risk/return posture when these investments are more attractive than other available opportunities.

The Fund may take advantage of opportunities in the secondary market to gain exposure to funds that have already begun drawing capital commitments and collecting management fees. Secondary purchases would be made with the following objectives:

- To gain access to a Limited Partnership that was not available during its initial fundraising period;
- To gain incremental return due to a discounted Partnership interest purchase price; and,
- To manage the Alternative Investment program's cash flow profile (the 'J-curve') by avoiding part or all of the initial period of net negative cash flows and shortening the time to distributions from the Partnership (net positive cash flows).

Over the long term, it is expected that roughly equal amounts of new funding will be committed in each fiscal year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

### **Specific Guidelines for Private Equity Portfolios**

- **Buyout Investments**

- 0     Description: Buyout investments typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company with or without leverage. Investments are typically made in years one through three and returns typically occur in years three through six.
- 0     Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- 0     Benchmark: 300 - 500 basis points above the Russell 3000 Index.
- **Venture Capital Investments**
  - 0     Description: Venture capital investments are seed stage, early stage, later stage, and expansion stage investments. Investments are often made in years one through five and returns typically occur in years four through eight.
  - 0     Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 50% of total net assets of an individual partnership may be invested in a single segment within a particular industry.
  - 0     Benchmark: 500 basis points above the Russell 3000 Index.
- **Debt Related Investments**
  - 0     Description: Debt-related investments combine a debt instrument, which provides a current yield, with an equity participation of warrants, etc. Investments are typically made in years one through three with a high level of current income that is combined with capital appreciation supplied by the warrants or other "equity kickers".
  - 0     Investment Constraints: No more than 30% of total net assets may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 10% of assets may be invested in equity or debt related real estate assets. No purchase of securities on margin or otherwise borrow funds for the purpose of purchasing securities.
  - 0     Benchmark: 300 basis points above the Russell 3000 Index.

Note: There are no separate guidelines for international investments. Specific guidelines for these investments are included within the sections covering buyout, venture capital, and debt related investments.

## **Specific Guidelines for Real Estate Portfolios**

- **REITS**

- 0 Description: Core real estate found in high quality REITs portfolios providing inflation protection and current income.
- 0 Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- 0 Benchmark: 100 - 200 basis points above NAREIT Equity REIT Index.

- **Opportunistic Real Estate**

- 0 Description: Direct investment in real estate and other investments that involve real estate, such as opportunistic real estate investments involving mortgages, "turnaround" situations, REIT joint ventures, natural resources, etc. Opportunistic or value-added funds provide less current income but greater potential for capital appreciation.
- 0 Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- 0 Benchmark: 300 - 500 basis points above the Wilshire Real Estate Securities Index.

## **Additional Considerations**

The Board encourages investment opportunities that support economic development in Indiana, through investment in private equity funds that focus on Indiana and the Midwest, in accordance with its standards for prudent investments and its guiding principles. The Board further encourages its staff, consultant and general partners (GPs) to be proactive in the community, state and region in sourcing attractive partnering opportunities. Such opportunities must be consistent: a) with investment types found in approved subasset classes as noted above; and b) meet the investment management and performance standards as set forth in Section 7 & 8 of the Fund's overall investment policy. Submissions will be channeled to appropriate partners and managers of the Fund known to have an expertise in evaluating similar opportunities. The staff, consultant, and GPs will endeavor to become a conduit between Indiana opportunities and the investment management community nationwide.

## APPENDIX A

### BENCHMARKS FOR INVESTMENT MANAGERS

<u>Asset Class</u>	<u>Sub-Asset Class</u>	<u>Benchmark</u>
<b>Fixed Income - CORE:</b>	Enhanced 1-3 Year Gov./Credit	LB 1-3 Gov/Credit
	Core	LB Agg. Index
	Core – Enhanced	LB Agg. Index
	Core – Active	LB Agg. Index
	Core – Opportunistic	LB Agg. Index
<b>Fixed Income - TIPS:</b>	TIPS – Index	LB TIPS US Index
	TIPS – Enhanced	LB 1-10 Year TIPS
	TIPS – Active	LB TIPS Index
<b>Domestic Equity:</b>	Index	S&P 500
	Enhanced Index	S&P 500
	Large Cap Core	S&P 500
	Large Cap Value	Russell 1000 Value
	Large Cap Growth	Russell 1000 Growth
	Mid Cap Value	Russell Mid Value
	Mid Cap Growth	Russell Mid Growth
	Small-Mid Cap Value	Russell 2500 Value
	Small-Mid Cap Growth	Russell 2500 Growth
	Small Cap Value	Russell 2000 Value
	Small Cap Growth	Russell 2000 Growth
<b>International Equity:</b>	International Index	MSCI EAFE
	International Enhanced Index	MSCI ACWI ex-US
	International Core	MSCI EAFE
	International Value	MSCI ACWI ex-US
	International Growth	MSCI ACWI ex-US
<b>Global Equity:</b>	Global Core	MSCI ACWI Free
	Global Value	MSCI ACWI Free
	Global Growth	MSCI ACWI Free



**ADDENDUM**

**TO**

**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**

**RESTATEMENT OF INVESTMENT POLICY**

**FOR**

**SECURITIES LENDING COLLATERAL  
REINVESTMENT**

**Originally Adopted June 9, 2000**  
**Last Restated December 17, 2004**

## **I. INTRODUCTION**

### **A. Purpose of the Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy**

- 0 This Addendum restates and now contains the guidelines for securities lending cash collateral reinvestment.

### **B. Statutory Authority**

- 0 Pursuant to IC 5-10.2-2-13, the Board has the authority to maintain a securities lending program.

## **II. OBJECTIVES AND STRUCTURE OF THE CASH COLLATERAL REINVESTMENT PROGRAM**

The cash collateral fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing cash collateral of this section in high quality fixed income (or adjustable rate) securities. Cash collateral investments emphasize liquidity and principal preservation as prime objectives. Within quality, maturity, and market sector diversification guidelines, investments are made in those securities with the most attractive yields.

## **III. PERMITTED INVESTMENTS**

In reinvesting cash received as collateral pursuant to Securities Lending Agreements, including income received from such collateral, the Securities Lending Agent is authorized and directed to use any of the following types of investments (the "Permitted Investments"):

- 0 Short term obligations of corporations, including but not limited to commercial paper, promissory notes, master variable demand notes, and private placements whose commercial paper is rated in the highest category of at least two nationally recognized securities rating organizations (NRSRO) at the time of purchase, or if the corporation has not received a rating from any NRSRO, the security must meet such standards as may be necessary to be assigned a "highest category" rating, as determined by the Securities Lending Agent.
- 0 Loan participation certificates of corporations whose commercial paper is rated in the highest category of at least two NRSROs at the time of purchase, or if the corporation has not received a rating from any NRSRO, the security must meet such standards as may be necessary to be assigned a "highest category" rating, as determined by the Securities Lending Agent.

- 0 Short term obligations of banks, including, but not limited to, certificates of deposit, bankers' acceptances, and time deposits, [including without limitations any such instrument issued by the Securities Lending Agent or one of its affiliates.]
- 0 Short term obligations of the United States Government or its agencies.
- 0 Repurchase agreements. Permitted collateral shall be: bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities or establishments; mortgage-backed securities sponsored by agencies of the Government of the United States; corporate obligations of domestic and foreign issuers with a minimum rating of AA- by Standard & Poor's Corporation ("S&P") or Aa3 by Moody's Investor Services, Inc. ("Moody's"); asset-backed securities with a minimum rating of AAA of S&P or Aaa by Moody's or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's). A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized.
- 0 Short term investments (taxable or tax-exempt) of municipalities, including but not limited to, commercial paper, variable rate demand notes, and medium term notes, rated in the highest category of at least one NRSRO at the time of purchase, or in the case of credit enhanced obligations, the issuer of the credit enhancement shall be rated in the highest category of at least one NRSRO.
- 0 Asset backed securities, including securities secured by, but not limited to, auto and truck loans, credit card receivables, home equity loans, company receivable and leases, which are rated in one of the top three categories of at least one NRSRO at the time of purchase. All asset backed securities shall have a floating rate of interest.
- 0 Money market mutual funds registered under the Investment Company Act of 1940, as amended, and subject to the Rule 2a-7 restrictions, but not including such funds issued by an affiliate of the Securities Lending Agent.

#### **IV. CONCENTRATION OF COLLATERAL INVESTMENTS**

The Securities Lending Agent shall limit its investment to 5% of the market value of cash collateral in the securities of any one issuer at the time of purchase. The Securities Lending Agent shall limit its investment to 25% of the market value of the cash collateral

in repurchase agreements with any single counter party at the time of purchase. The Securities Lending Agent shall limit its investment to 25% of the market value of cash collateral in a money market mutual fund at the time of purchase. There shall be no restriction with respect to purchases of U.S. treasury and agency securities.

## **V. MATURITY GUIDELINES**

- 0 All instruments must have a Final Maturity at the time of purchase that does not exceed two years. Final Maturity for purposes of these guidelines means the earliest of (i) the date noted on the face of the instrument as the date on which the principal amount must be paid; (ii) in the case of an instrument with an unconditional par or unconditional demand feature, the date on which the principal amount of the instrument can be recovered by demand; or (iii) in the case of a floating rate instrument, the next readjustment of the interest rate, provided that, if the maturity of a floating rate instrument is determined by reference to an unconditional put or unconditional demand feature, the period remaining between adjustments of the interest rate must not exceed two years. A floating rate instrument shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, for purposes of calculating days to maturity of the instrument and the portfolio's weighted average maturity.
- 0 A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.
- 0 Adjustable rate mortgages will have a maturity equal to the period remaining until the last principal payment is required by the terms of the underlying obligation to be paid.
- 0 The fund's maximum weighted average days to maturity may not exceed 60.
- 0 No more than 25% of the value of the fund's portfolio may have a final maturity of more than one year, and in no event more than two years.

## **VI. PROHIBITED INVESTMENTS**

- 0 Equity securities (except that equity securities, such as owner trust certificates that have predominant debt characteristics shall not be prohibited).
- 0 Floating rate securities with an interest rate cap, with the exception of those capped at a rate in excess of 20% to comply with state usury laws.

- 0 Only U.S. Dollar denominated securities will be permissible under these guidelines.
- 0 The Fund will not invest in any instrument whose coupon rate will move in the opposite direction of the index to which such instrument is tied. In addition, in the event that the fund invests in any instrument whose coupon rate moves when the index to which such rate is tied moves, the Fund shall invest only in those of such instruments whose movements in the coupon rate are equivalent to movements in the index.
- 0 The Fund may not purchase securities based on either an S&P, Moody's, Fitch, or Duff rating where the rating organization has announced publicly that it is examining the rating for a possible downgrade. This limitation does not apply to securities rated A1+ by S&P.
- 0 In the event that a security held in the portfolio falls below the minimum guideline as a result of being downgraded by either S&P, Moody's Fitch, or Duff, Securities Lending Agent will notify the client and await instructions.

**ADDENDUM**  
**TO**  
**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**  
**RESTATEMENT OF INVESTMENT POLICY**  
**FOR**  
**ANNUITY SAVINGS ACCOUNT**

**Originally Adopted March 2, 1998**  
**Last Restated December 17, 2004**

## **I. INTRODUCTION**

### **A. Purpose of the Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy**

The Board adopted an Investment Policy Statement covering all the Fund's other assets (except for the Pension Relief Fund, the Legislators' Defined Contribution Plan and the Annuity Savings Accounts) on September 12, 1997. This Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy is intended to assist the Board of Trustees ("Board") of the Indiana Public Employees' Retirement Fund ("Fund") in managing the investment program established for the Annuity Savings Accounts.

### **B. Statutory Authority**

The Annuity Savings Accounts are bookkeeping accounts established for each member of the Fund. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). Legislation has been enacted that will substantially enhance the members' investment direction opportunities, effective July 1, 1998. These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit. The Annuity Savings Accounts are subject to the following provisions:

- 0 The Board must maintain a "guaranteed fund" option. IC 5-10.2-2-3(b).
- 0 The Board must maintain an indexed stock fund option. IC 5-10.2-2-3(c)(1).
- 0 The Board must maintain a bond fund. IC 5-10.2-2-3(c)(1).
- 0 The Board may establish any other options it wishes, so long as the options represent a variety of investment objectives. IC 5-10.2-2-3(c)(2).
- 0 Administrative costs of each of the options must be paid from the earnings on that option. IC 5-10.2-2-3(c)(4).
- 0 A valuation of each member's Annuity Savings Account must be completed as of the last day of each quarter. IC 5-10.2-2-3(c)(5).

### **C. Primary Focus**

The primary focus of this Addendum to Investment Policy Statement is to:

1. Outline the number and characteristics of investment options selected by the Board for the Annuity Savings Accounts.
2. Provide rate-of-return objectives and establish formal criteria to monitor and evaluate the performance results of the various investment options.

## **II. OBJECTIVES AND STRUCTURE OF THE ANNUITY SAVINGS ACCOUNT INVESTMENT PROGRAM**

This Policy has been structured to provide Plan members with a choice of five diverse options that offer a range of risk and return characteristics appropriate for members. A member can select between the options subject to the following conditions from IC 5-10.2-2-3(e):

- 0 A member may make a selection or change an existing selection under rules established by the Board, but must be allowed to change at least once each quarter.
- 0 The Board must implement the member's selection beginning the first day of the next calendar quarter that begins at least thirty (30) days after the selection is received by the Board. This date is the effective date of the member's selection.
- 0 A member may select any combination of the Guaranteed Fund or any available alternative options, in ten percent (10%) increments.
- 0 A member's selection remains in effect until a new selection is made.
- 0 On the effective date of a member's selection, the Board must reallocate the member's existing balance or balances in accordance with the member's direction, based on the market value for an alternative investment option on the effective date and by account balance for any Guaranteed Fund balance on the effective date. The Board shall not reallocate the member's account at any other time.
- 0 All further contributions to the member's account shall be allocated in accordance with the member's most recent effective direction.

The options currently include:

- Guaranteed Fund
- Bond Fund
- S&P 500 Index Fund
- Small Cap Equity Fund
- International Equity Fund
- Money Market Fund



The number and types of investment funds available will be periodically reviewed by the Board in order to ensure a diversity of investment alternatives, adequate and reasonable availability of investment types, and clarity and usefulness of the investment choices. The objective will be to provide, on an ongoing basis, a broad array of investment choices representing diverse investment types described by the underlying capital markets, investment return expectations and risk expectations (defined as volatility of investment return). The Board will also review the investment managers of the funds as provided for in Sections 7 and 8 of the Statement of Investment Policy.

Annually, the Board is required to prepare a separate analysis of the fund options for distribution of the participants describing recent and historical performance results in terms expected to be understandable to the average participant. This analysis must:

- Include a description of the procedure for selecting an alternative investment program;
- Be understandable by the majority of members; and
- Include a description of prior investment performance.

IC 5-10.2-2-3(d).

### **III. INVESTMENT POLICY GUIDELINES**

#### **A. Guaranteed Fund**

The investment of the Guaranteed Fund will be part of the overall PERF general investment portfolio. The objective of the Guaranteed Fund is to provide investment in a broad array of stocks and bonds including investment in international equities in proportions designed to balance the return benefit expected of stocks with the lesser volatility of bonds. The Guaranteed Fund will be invested in the same manner as PERF, which investment program has been deemed to be consistent with the investment objective of this Fund. The Guaranteed Fund will be invested according to Section 6, Asset Allocation, of the Statement of Investment Policy, and according to the investment guidelines established in Section 8 of the Statement of Investment Policy.

#### **B. Bond Fund**

The objective of the Bond Fund is to provide investment in the broad domestic bond market. The Bond Fund will be invested according to the specific guidelines of the core, index fixed income portfolio as established in Section 8 of the Statement of Investment Policy.

#### **C. S&P 500 Index Fund**

The investment objective of the S&P Index Fund is to provide investment in the broad domestic equity market. The Fund will be invested according to the specific guidelines

for the core, index equity portfolio as established in Section 8 of the Statement of Investment Policy.

**D. Small Cap Equity Fund**

The investment objective of the Small Cap Equity Fund is to provide investment in the stock of smaller domestic companies, typically referred to as small cap stocks. The Fund will be invested according to the specific guidelines for the core, enhanced index equity portfolio (with the index being a small capitalization market benchmark) as established in Section 8 of the Statement of Investment Policy.

**E. International Equity Fund**

The investment objective of the International Equity Fund is to provide a broad exposure to foreign equity markets of companies based outside the United States. The Fund will be invested according to the specific guidelines for the international equity index portfolio as established in Section 8 of the Statement of Investment Policy.

**F. Money Market Fund**

The investment objective of the Money Market Fund is to provide investment in short-term, principal preserving securities. The Fund will be invested according to the specific guidelines for Short-Term Active Management – domestic fixed income portfolios, as established in Section 8 of the Statement of Investment Policy.

**IV. PERFORMANCE OBJECTIVES**

The Board has determined that it is in the best interest of the Plan's participants and beneficiaries that performance objectives be established for each investment alternative and it is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Addendum. The performance of each individual option will be evaluated relative to a market index and to a meaningful peer group of active managers. The evaluation of performance results will be accomplished according to the standards established in Section 7 of the Statement of Investment Policy. Specific benchmarks for each option are delineated below.

- **Guaranteed Fund** - Composite of various benchmarks of PERF general portfolio
- **Bond Fund** - Lehman Brothers Aggregate Bond Index
- **S&P 500 Index Fund** - Standard & Poor's 500 Index
- **Small Cap Equity Fund** - Russell 2000 Index
- **International Equity Fund** – Morgan Stanley Capital International (MSCI) Europe Australasia Far East (EAFE) Index
- **Money Market Fund** – 90-day Treasury Bill Rate

**ADDENDUM**  
**TO**  
**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**  
**RESTATEMENT OF INVESTMENT POLICY**  
**FOR**  
**ALTERNATIVE INVESTMENT PROCEDURES**

**Originally Adopted March 2, 1998**  
**Last Restated December 17, 2004**

## **ALTERNATIVE INVESTMENT PROCEDURES**

The Board of Trustees (the "Board") of the Public Employees' Retirement Fund (the "Fund") is committed to utilize a public and competitive process in making its partnership investment decisions. Since direct investing in equity deals is a highly specialized process, and requires the input of a dedicated team of experienced professional staff, the Fund will avoid direct investing at the asset level as a means of implementing the Alternative Investment program.

### **General Comments**

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exists major competition for deal flow on the part of both investors and general partners. To a great extent, market forces drive the bargaining of economic terms. Most investment vehicles are structured as commingled and often blind pool investment partnerships. The most common offering forms are equity private placements where the governing laws of the partnership agreement impose a passive role to the limited partner investors. These contractual arrangements are long-term in nature and provide the general partner or sponsor a reasonable time horizon to wisely invest capital, add value through intensive operational management, then harvest the fruits of such an investment. Moreover, terms of the partnership are proposed by the general partner and are critical to the economic incentives and ultimate performance of the partnerships.

### **Investment Strategy and Plan Guidelines**

To strengthen the diversification of the investments, several guidelines should be utilized in staff's formulation and recommended annual investment strategy and plan. These guidelines encompass the types of investment vehicles that can be utilized, controlling financing stage risks, industry concentration limits, acceptable contact with general partners, appropriate sizes for investments, and the preferred alignment of interests.

Specific guidelines should focus on the following important attributes of particular partnerships:

- Investment Vehicles: Staff may utilize the following investment vehicles within the private equity portfolio: private limited partnerships; group trusts; limited liability companies; and co-investments alongside the Fund's existing successful general partners.
- Investment Timing Risks: Staff should limit the potential for any one investment to negatively impact the long-term results of the portfolio by investing across business cycles. Moreover, the portfolio must gain exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle. Staff may also consider purchasing secondary partnership interests to shorten the effective life of the partnership interest and to access attractive limited partnerships previously unavailable to the Fund during the initial fundraising period.

- Industry Concentration: The portfolio will be exposed to companies in a variety of industries. For venture capital, however, it is recognized that opportunities may be most readily realized in a selected number of industries.
- General Partner Diversification: Staff will seek to work with a variety of general partners due to their specialized expertise in particular segments of the private equity market and source of their deal flow. For sponsors whose acumen is more financial than operational the deal flow should emphasize proprietorship.
- Investment Size: The Fund will be restricted from owning more than a 15% economic interest in any one vehicle or more than 5% of any one GP's total private equity asset management business when measured by active funds, without written Board approval. The planned annual total investment commitments, which shall be subject to Board approval, shall not exceed two percent (2%) of the total portfolio market value of the Fund's assets as of June 30th prior to the beginning of the calendar year.
- Alignment of Interests: Staff shall actively negotiate partnership agreements on behalf of the Fund with a prime directive to ensure that interests of the general partner are aligned with those of the Fund and supported by all other similar limited partners. This should include a competitive fee structure with participating interest in the investment for the commensurate risks being taken. Staff will also delineate between sweat and cash equity being committed by the general partner with an emphasis on the latter with respect to the Fund's preferred alignment tool.
- Special Services: Due to the complex nature of alternative investment formats and the acknowledgement private equity is a very high risk market, expert legal counsel will be retained by staff on as needed basis. From time to time the staff or the consultant, with investment committee approval, may be required to engage specialized firms to investigate principals for integrity, ethical problems, tax-related issues, etc. prior to an investment subscription. Neither does the Fund currently have the ability to manage individual securities that result from liquidation or in-kind distributions of in the normal course of portfolio asset sales by general partners. Therefore, the Fund will utilize the services of a public securities manager specializing in distribution management. The objective will be to maximize their value consistent with the return objectives of the alternative investment portfolio, the liquidity requirements of the Fund, and the need to provide reasonable diversification.

## **Investment Selection Criteria**

In building an alternative asset portfolio, the Fund's aim is to select the highest quality partnerships that will in turn offer a diversified private equity portfolio designed to outperform the targeted benchmarks outlined in Section 15. By carefully assembling a group of partnerships headed by superior investment professionals within the range of those categories outlined in Section 15, the Fund's goal is to capture above average returns available by private market investing.

Sponsorship consideration will focus on the following important relative characteristics:

- Quality and stability of the general partnership team
- Previous investment track record
- Proposed investment strategy
- Legal and economic terms governing the partnership structure
- Fit within the defined investment categories in Section 15
- Contribution to geographic and industry diversification of the portfolio

### **Implementation & Authority**

Staff will make every effort to present worthwhile opportunities to the Board during a regularly scheduled Board meeting, while providing the Trustees with sufficient time to adequately familiarize themselves with each investment opportunity and its fit within the Alternative Investment program. Staff and Consultant will present to the Investment Committee a "Preliminary Due Diligence Report" prior to completing formal due diligence. Formal due diligence, including an on-site visit, will be completed following Investment Committee approval. Thereafter, investment recommendations will be presented to the Investment Committee and General Partner representatives will make a formal presentation to the Board. The Board also recognizes that investment opportunities requiring more immediate action may be presented which may enhance the long-term performance of the Fund. Should such an investment opportunity arise, Staff and consultant may request that the Investment Committee or full Board convene between regularly scheduled meetings, via conference call, to review investments and approve proceeding with additional due diligence. Upon Board approval, Staff will have the authority to recommend special services. The Fund in this asset class grants the following decision-making and management authority:

### **Role of the Board**

- Annual Alternatives Investment Policy review, including asset allocation targets and ranges.
- Annual Investment Procedures review.
- Annual Investment Strategy and Plan review.
- Approve commitments to specific partnerships or other specific alternative investments
- Approve commitments/sales as part of a need to rebalance the portfolio.
- Approve renegotiated deal terms and exit strategies for troubled investments.
- Annual consultant performances review, and contract renewal if warranted.
- Approve Special Service Vendors

### **Role of the Investment Committee**

- Review and discuss the investment strategy and other issues with staff and consultant, on an as-needed basis.
- Monitor the alternative investment portfolio semi-annually to assess guideline compliance

- Recommend commitments to specific partnerships or other specific alternative investments
- Recommend renegotiated deal terms and exit strategies for troubled investments.
- Approve the use of special services as noted above.

### **Role of the Staff**

- Annually provide recommendations to the Board and Investment Committee of changes to the Alternatives Investment Policy, including asset allocation targets and ranges.
- Annually provide recommendations to the Board and Investment Committee of changes to the Investment Strategy and Plan.
- Evaluate prospective partnership management and its prepared offering materials, on an as-needed basis.
- Assign appropriate staff members, in conjunction with the independent consultant, to source and review all investment opportunities. The decision to reject investment opportunities is delegated to Staff, with the stipulation that all submissions receive equal opportunity.
- Conduct preliminary strategy and organizational due diligence of attractive partnership opportunities, with the consultant, prior to seeking the approval of the Board or Investment Committee.
- Convene the Investment Committee, in any way reasonably possible and on an as-needed basis, to review investment recommendations.
- Recommend the selection of partnership(s)/vehicle(s) or the sale of an existing interest in a partnership/vehicle to the Investment Committee or the Board as appropriate.
- Upon approval by the Board of Trustees, conduct more rigorous due diligence including review and negotiation of new partnership agreements while engaging Special Services outlined in the above guidelines on an as needed basis.
- If formal due diligence yields no objections in Staff's and Consultant's joint opinion, execute contracts and provide funds to the selected partnerships/vehicles at recommended commitment levels. In case of objections, Staff will update Investment Committee of its intent to reject limited partnerships.
- Review and negotiate amendments to existing agreements prior to their execution.
- Monitor and review investment vehicles for adherence to objectives and guidelines.
- Meet with partners regularly and, where invited as appropriate and at its sole discretion, sit on advisory boards on behalf of the Fund. Compensation from the general partner is prohibited, other than reimbursement of reasonable travel expenses for the attendance of advisory board meetings.
- Annually review the post-venture distribution manager.
- Oversee the liquidation of in-kind distributions from partnerships in an orderly manner.
- Annually evaluate performance measurement and record keeping systems.
- Annually evaluate the performance of the independent consultant.

## **Role of the Independent Consultant**

- Annually review the Alternative Investment program and evaluate the Fund's investment strategy, as it relates to Alternative Investments.
- Provide performance reports to staff and the Investment Committee on a quarterly basis.
- Provide the Board and staff with relevant, reliable and timely research and information requests to fulfill their responsibilities.
- Regularly review and discuss the investment strategy, and other relevant issues, with staff.
- Assist staff in establishing appropriate asset allocation targets and ranges.
- Monitor and review partnerships and vehicles on an ongoing basis, for adherence to objectives and guidelines.
- Monitor existing partnerships and vehicles on an ongoing basis and, when appropriate, recommend their sale or replacement to staff.
- Assist staff in conducting partnership due diligence and in negotiating business terms and appropriate structural incentives.

## **Contract Authority**

- (a) Upon Board approval the Executive Director shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, recordkeeping, subscriptions, purchase and sale contracts, and investment management services.
- (b) The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.
- (c) Any two of the following positions have authority to approve disbursement of funds for partnership capital calls and contributions: Executive Director, Chief Investment Officer, Chief Financial Officer, and Board Chairman.

## **Contract Terms**

No contract shall obligate the Fund for a period in excess of ten (10) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that:

- (1) any individual option period or extension does not exceed five (5) years in duration; and
- (2) any individual option period or extension may be approved by the Fund only upon the specific, affirmative exercise of the option, or the specific, affirmative agreement to the extension, by the Board following recommendation by the Investment Committee



## **Contract Conditions**

No contract with the Fund may contain any terms or provisions prohibited by Indiana or federal law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

- (a) In all contractual decisions, the Executive Director and the Board of Trustees shall take into account the particularly sensitive nature of the Fund and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.
- (b) All decisions made under this policy by the Executive Director and the Board of Trustees shall be final except as otherwise specifically set forth in this policy.
- (c) The Board of Trustees intends that its Investment Policy control in all circumstances.

## **Applicability**

This policy is meant only to govern procedures for the investment in alternative assets consistent with Section 15 except for amendments, modifications, or extensions of existing contracts, unless the predominate purpose of an amendment or modification is to avoid the applicability of this policy. However, if an emergency exists with respect to any Fund assets, the Executive Director or the Board of Trustees may take any actions they deem necessary and appropriate to safeguard the assets for a temporary period, until permanent disposition of those assets can be made under this policy.

## **Public Records**

- (a) Except as provided in subsection (b), all documentation related to the above mentioned procedures shall be available for public inspection following execution of the contract, except to the extent the disclosure is prohibited by law.
- (b) The Executive Director may except from public disclosure, at any time, procurement records that are exempt from mandatory disclosure under IC 5-14-3-4(b) and under the Alternative Investment Information Policy as adopted by the Board of Trustees.

**ADDENDUM**

**to**

**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**

**RESTATEMENT OF INVESTMENT POLICY**

**for**

**ALTERNATIVE INVESTMENT INFORMATION**

**DISCLOSURE POLICY**

**Originally Adopted November 14, 2003**  
**Last Restated December 17, 2004**

## **ALTERNATIVE INVESTMENT INFORMATION DISCLOSURE**

In order to comply with the Access to Public Records Act (“APRA”), specifically, IC 5-14-3-1, et seq., the Board of Trustees (“Board”) of the Indiana Public Employees’ Retirement Fund (“PERF” or “the Fund”) hereby adopts this policy regarding disclosure of private equity investments.

### **General Principles**

The Board appreciates its public role as an independent body corporate and politic exercising its responsibility to be publicly accountable for its investment decisions made on behalf of the participating public employees of the State of Indiana. As a separate corporate body, the Board is required to comply with the public records provisions of APRA.

Generally, public records of the Board must be available for public disclosure. However, APRA prohibits disclosure of records that contain trade secrets. APRA provides that records containing trade secrets may not be disclosed by a public agency unless specifically required by statute or under the rules of discovery. See IC 5-14-3-4(a)(4).

Therefore, in order to comply with the APRA, the Board adopts this disclosure policy with respect to investments made within the alternative investment portfolio of the Fund.

### **Alternative Investments Disclosure Policy**

Subject to the procedures and any other restrictions applicable under the APRA, the Board will allow the Staff of PERF to disclose information such as the legal name of partnership investments, general partners, or investment managers that have been selected by the Board as alternative investment managers. PERF will also disclose a summary of the aggregate returns of the alternative investment portfolio.

However, in order to comply with APRA’s prohibition on disclosure of the records that contain trade secrets, the Board and Staff of PERF is are prohibited from disclosing any information on the underlying investments made by the partnership or managers and their individual performance contribution to the alternative investment portfolio.

**ADDENDUM**

**TO**

**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**

**RESTATEMENT OF INVESTMENT POLICY**

**FOR**

**INVESTMENT PROCUREMENT**

**Originally Adopted June 8, 2000**  
**Last Restated December 17, 2004**

**ADDENDUM TO INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**  
**RESTATEMENT OF INVESTMENT POLICY FOR**  
**INVESTMENT PROCUREMENT**

The Board of Trustees of the Public Employees' Retirement Fund ("Fund") is committed to utilize a public and competitive process in making its investment procurement decisions.

**Procurement Authority**

(a) The Executive Director, with approval of the Board of Trustees, shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, and investment management services.

(b) The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.

**Procurement Policy**

(a) In all procurement decisions, the Executive Director shall take into account the particularly sensitive nature of the Fund and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.

(b) All decisions made under this policy by the Executive Director shall be final except as otherwise specifically set forth in this policy.

(c) The Board of Trustees intends to operate with written contracts whenever feasible.

(d) The Board of Trustees intends that its Investment Policy control in all circumstances.

**Applicability**

This policy is meant to govern the procurement of investment consulting, custodian, and investment management services, except for amendments, modifications, or extensions of existing contracts, unless the predominate purpose of an amendment or modification is to avoid the applicability of this policy. However, if an emergency exists with respect to any Fund assets, the Executive Director or the Board of Trustees may take any actions they deem necessary and appropriate to safeguard the assets for a temporary period, until permanent disposition of those assets can be made under this policy.

**GENERAL PROCUREMENT**

(a) The Executive Director or the Executive Director's designee shall procure services through the use of one of the following procurement methods or any combination thereof:

- (1) Request for proposals.
- (2) Special procurement.
- (3) Any other method or process which is approved by the Board of Trustees of the Fund for a specific contract, or series of contracts, for services, including, but not limited to, use of requests for information or prequalification.

### **Request for Proposals**

(a) Unless one of the other methods applies, proposals shall be solicited through a request for proposal, which must include the following:

- (1) Factors or criteria that will be used in evaluating the proposals.
- (2) General statement concerning the relative importance of price and the other evaluation factors.

(b) Public notice shall be given in the manner described in this policy.

(c) Proposals shall be opened so as to avoid disclosure of contents to competing offerors during the process of negotiation.

(d) A register of proposals shall be prepared and must be open for public inspection after contract award. The register of proposals must contain the following:

- (1) Copy of the request for proposals.
- (2) Listing of all proposals received.
- (3) General basis on which award was made.
- (4) Entire contents of the contract file except for proprietary information or financial information which was not required to be made public by the terms of the request for proposal itself.

(e) The request for proposal will contain a clear statement as to whether or not any communication with the Fund may be initiated by a respondent after publication of the request for proposal and before final selection, what may be contained in such communication, who the respondent may contact, and whether or not the Fund will respond. However, the Fund reserves the right to discuss any part of any response at any time for the purpose of clarification. No member of the Board of Trustees, employee of the Fund, or consultant or advisor to the Fund shall have any communications with a respondent or a representative of the respondent about the respondent's proposal or the request for proposal after publication and before final selection, except as otherwise provided in the request for proposal. Respondents must be given equal access to any communications about the request for proposal between the Fund and other respondents. The Fund will make available a recapitulation of the subject matter of any communication and the response of the Fund. The Fund may make such information available

by posting it on the internet. Respondents must be accorded fair and equitable treatment with respect to any opportunity for discussion and revision of proposals. In conducting any communications, there must be no disclosure of any information derived from proposals submitted by competing respondents.

(f) Award shall be made to the responsible respondent whose proposal is determined in writing to be most advantageous to the Fund, taking into consideration price and other evaluation factors set forth in the request for proposals, and the applicable provisions of IC 5-10.2 and 5-10.3.

(g) The only factors or criteria that may be used in the evaluation of proposals are those specified in the request for proposals and the applicable provisions of IC 5-10.2 and 5-10.3.

(h) Public notice of a request for proposal shall be made by publication at least once in one (1) newspaper of general circulation in Marion County, Indiana. The Executive Director may designate additional newspapers or industry publications for the publication of notice, such as Pensions and Investments. The Executive Director may send notices or requests for proposals by mail to prospective bidders or offerors known to the Executive Director to be reasonably susceptible to award of the contract. However, failure to give notice to a particular bidder or offeror does not invalidate a procurement under this rule.

### **Special Procurement**

(a) Notwithstanding any other provisions of this policy, the Executive Director may make, or authorize the Chief Investment Officer to make, special procurements:

(1) When the current business process or continuity of services is a substantial consideration in the procurement;

(2) When the Executive Director or the Chief Investment Officer states in writing the determination that there is only one (1) appropriate or viable source for the required service; or

(3) When there is a reallocation of investment services among current service providers to the Fund.

(b) A special procurement must be made with such competition (if any) as is practicable under the circumstances as determined by the Executive Director or Chief Investment Officer.

(c) A written determination of the basis for the special procurement must be included in the contract file.

### **Cancellation; Rejection; Amendment of Solicitations**

(a) When the Executive Director, with approval of the Board of Trustees, determines that it is in the best interests of the Fund, any request for proposal may be withdrawn or cancelled. Additionally, the Executive Director may reject in whole or in part any bids,

proposals, or offers that have been submitted at any time prior to the effective date of the resulting contract.

(b) The reasons for the withdrawal, cancellation or rejection must be made a part of the record.

(c) The Executive Director may amend any solicitation in any manner provided that notice is given in a manner reasonably calculated by the Executive Director to provide fair and equitable notice to the potential vendors.

### **Disclosure Requirements for Procurements**

(a) All respondents shall submit the information required by the process at the time of submission of its bid, proposal, or offer. Immediately prior to execution of a contract by a vendor, the vendor shall update the disclosures. The vendor shall be under a continuous duty, in accordance with the provisions of the vendor's contract.

(b) The Executive Director may require such additional disclosures as may be desired for the purpose of enforcing, auditing, investigating, or confirming the accuracy of the disclosures or for any proper purpose.

### **Contract Terms**

No contract shall obligate the Fund for a period in excess of five (5) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that:

(1) any individual option period or extension does not exceed five (5) years in duration; and

(2) any individual option period or extension may become effective only upon the specific, affirmative exercise of the option, or the specific, affirmative agreement to the extension, by the Executive Director.

### **Contract Clauses**

No contract with the Fund may contain any terms or provisions which are prohibited by Indiana or federal law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

### **Public Records**

(a) Except as provided in subsection (b), all procurement records shall be available for public inspection following award of the contract or cancellation of the procurement, except to the extent the disclosure is prohibited by law.



(b) The Executive Director may except from public disclosure, at any time, procurement records which are exempt from mandatory disclosure under IC 5-14-3-4(b).

## **PROCUREMENT CLAIMS AND APPEALS**

### **Application**

Pursuant to IC 4-21.5-2-5(11), procurement decisions by the Fund or the Executive Director are not subject to IC 4-21.5. In lieu thereof, vendors or prospective vendors, shall follow the procedures of and have the remedies available under this policy in the event of a protest of any procurement decision of the Executive Director or his designee.

### **Appeal of Award or Decision to Award a Contract**

(a) Any prospective vendor may appeal the award or decision to award a contract by filing a written appeal within seventy-two (72) hours after the award, after receipt of notice of the award, or after the announcement of the decision to award is posted or published, whichever occurs first.

(b) The only grounds for filing an appeal under this policy are as follows:

(1) A procurement decision was not made in compliance with the procedures required by this policy.

(2) A procurement decision was made in violation of any rules regarding ethics promulgated by the Fund.

(c) The appeal shall be in writing and shall state the following, the decision which is being appealed, all grounds for the appeal, and any other information necessary to identify the contract, bid, or request involved in the appeal. It shall also include all evidence or supporting material the prospective vendor wishes to submit.

(d) No appeal shall be made under this policy on the grounds that the prospective vendor was not determined to be a responsible bidder.

### **Notice**

A notice of appeal shall be filed by mailing the notice to the Executive Director at the principal office of the Executive Director in Indianapolis by registered or certified mail, return receipt requested, or by delivering the notice of appeal to the principal office of the Executive Director in Indianapolis. Filing by registered or certified mail shall be effective upon mailing.

### **Executive Director's Review of an Appeal**

The Executive Director shall issue a decision on a claim within thirty (30) days after the claim was filed, which shall be final. The Executive Director shall state the reasons for denial of any appeal filed under this policy. A copy of the decision shall be mailed by certified or registered mail, return receipt requested, to the entity who filed the claim. The decision may

order such relief (if any) as is in the best interests of the Fund. Relief may include, but is not limited to, voiding the selection and redoing the process, and damages.

**ADDENDUM**

**to**

**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**

**RESTATEMENT OF INVESTMENT POLICY**

**for**

**SECURITIES LITIGATION POLICY**

**Adopted December 17, 2004**

## **STATEMENT OF INTENT**

This securities litigation policy of the Board of Trustees of the Public Employees' Retirement Fund (PERF) is established to provide a process for the monitoring of pending legal actions in which PERF is a potential member of a plaintiff's class or otherwise possesses an independent right to a securities law claim. As a fiduciary, PERF has a duty to monitor and evaluate such actions in which it may potentially be a member or participant. This policy contains PERF's process and guidelines for evaluating whether active participation in securities litigation claims should be undertaken by PERF.

## **IDENTIFYING AND EVALUATING POTENTIAL CLAIMS**

Claims may generally be identified either by internal portfolio managers and analysts or the class action bar. Experience has shown that the class action bar typically identifies and files actions on almost all claims first. Staff will determine the most expedient method to identify claims in which PERF has an interest. If PERF may qualify to recover, further review by staff will be undertaken to determine if PERF should remain a member of the class or undertake a more active level of participation. Consideration will be given to the following factors:

- 0 whether PERF holds or held, at the relevant time, more than one percent of the company's outstanding shares;
- 0 whether PERF is, or was at the relevant time, one of the top 25 shareholders;
- 0 whether the potential damages arising from PERF's claim could exceed .5% of the CRIF; and
- 0 any other factor considered relevant by staff conducting the review.

If, after reviewing these factors, staff determines that additional examination is warranted and that the potential exists for PERF to add significant value to the claim by actively participating, or opting out of a potential class of litigants and pursuing a claim independently, review of the potential claim will be referred to an evaluation counsel, in accordance with the process outlined below.

## **EVALUATION COUNSEL**

If further evaluation is determined to be warranted, an evaluation counsel may be retained to perform additional due diligence regarding the claim. PERF may retain evaluation counsel through the issuance of an RFP on a case by case basis, or by issuing an RFP that selects any number of firms to be subsequently used in individual cases when a referral to an evaluation counsel is determined to be warranted by staff reviewing a case. Additional due diligence may include, without limitation: assessment of the complaint, SEC filings and company disclosures, contacts with other investors, consideration of non-litigation alternatives, and potential conflicts with other class members. The evaluation counsel will make a recommendation to the Executive Director, the Chief Investment Officer, and the General Counsel based upon their due diligence

as to whether more active participation or opting out of a class action and pursuing a claim independently by PERF would add significant value to any other options for recovery.

#### **STAFF REVIEW AND CONSULTATION WITH INVESTMENT COMMITTEE**

Following a review of the potential claim by staff and receipt of the recommendation of the evaluation counsel, the Executive Director, Chief Investment Officer, and the General Counsel will consult with the Investment Committee to determine whether active involvement is warranted by PERF, and what the nature of such involvement, if any, should be. The Investment Committee shall make a recommendation regarding action to the Board.

#### **SELECTION OF SECURITIES LITIGATION COUNSEL**

If the Board approves active involvement in a securities litigation claim, an RFP will be issued pursuant to the Investment Procurement Policy to retain appropriate outside counsel to pursue such claims directly on behalf of the Board of Trustees of PERF. The Board shall make a selection of the counsel that the Board deems best able to represent PERF's interests in pursuing such action.

In cases when PERF initiates litigation because it has determined it would be best to work with another institutional investor, staff may recommend, and the Board may conclude, that the most sensible and cost effective source of legal representation will be the PERF General Counsel's Office or the legal counsel representing such institutional investor that PERF wishes to support.

#### **CASE MANAGEMENT**

The authority to settle, withdraw from or otherwise terminate a securities litigation matter initiated by PERF pursuant to this Policy rests with the Board, but the Board may delegate such authority to the Executive Director and/or General Counsel.

**ADDENDUM**  
**TO**  
**INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND**  
**RESTATEMENT OF INVESTMENT POLICY**  
**FOR**  
**PENSION RELIEF FUND**

**Adopted December 17, 2004**

## **Background**

The Board adopted an Investment Policy Statement covering all the Fund's other assets (except for the Pension Relief Fund, the Legislators' Defined Contribution Plan and the Annuity Savings Accounts). This Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy is intended to assist the Board of Trustees ("Board") of the Indiana Public Employees' Retirement Fund ("Fund") in managing the investment program established for the Pension Relief Fund.

IC 5 10.3 11 1 creates the Pension Relief Fund. It is designed to relieve cities and towns from some of the liability for benefit payments under the 1925 Police Fund, the 1937 Firefighters Fund and the 1953 Police Fund, and is funded through state and local sources. IC 5 10.3 11 3. IC 5 10.3 11 4 establishes the formulas under which distributions are made to cities and towns for benefit payments. The Pension Relief Fund may be commingled with other PERF assets for investment purposes.

## **Application of Investment Policy**

With the exception of Section 6 (Asset Allocation), the investment of the Pension Relief Fund remains subject to the other guidelines and requirements found in the Investment Policy Statement.

## **Asset Allocation**

Based on the asset/ liability modeling study conducted for PERF assets, including the Pension Relief Fund, the Board has adopted an asset allocation structure of:

<u>Asset Classes</u>	<u>Target Norm</u>	<u>Allowable Range</u>
Equities - S&P 500 Index	30%	25% to 35%
Fixed Income - Intermediate Gov/Credit Index	70%	65% to 75%

## **Rebalancing**

The Board has determined that tactical asset allocation in anticipation of expected future market fluctuations is not in the best interest of the Pension Relief Fund. However, differential market returns may from time to time cause the allocation to move outside of the allowable ranges. Therefore, the Board has determined that a systematic and objective reallocation from one class to another is an appropriate activity for ensuring compliance with the asset allocation for the Pension Relief Fund.

This re-balancing activity will adhere to the following process:

- Actual asset class values versus target/range values will be evaluated by the Investment Staff on a monthly basis.
- Data for this evaluation will come from the Custodian end of month asset pricing.
- If an asset class falls outside of its range, then the "Re-balancing Committee" established in Section 6 of the Investment Policy may approve rebalancing the Pension Relief Fund, after considering:
  1. A recommended time frame for the re-balancing implementation,
  2. Estimated cost impact of the action, and
  3. Any other pertinent implications of the recommended action.
- Investment Staff will implement the reallocation of assets.
- Rebalancing of the Pension Relief Fund will be reported by the Chief Investment Officer to the Investment Committee no less than monthly in accordance with the process established in Section 6 of the Investment Policy.